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KVB KUNLUN FINANCIAL GROUP LIMITED

昆侖國際金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6877)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

ANNUAL RESULTS

The board of directors (the “Board”) of the Company announces the audited consolidated annual results of the Group for the year ended 31 December 2017, together with comparative figures for the corresponding year of 2016.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 HK\$'000	2016 HK\$'000
Leveraged foreign exchange and other trading income	3	397,025	306,036
Cash dealing income	3	1,136	4,251
Fee and commission income		108,775	55,356
Other income/(losses)	4	7,996	(3,036)
Total income		514,932	362,607
Referral expenses and other charges		299,247	160,407
Staff costs	5	56,931	60,105
Depreciation and amortisation	10 & 11	12,521	8,146
Lease payments under land and buildings		13,395	12,548
Administrative and other operating expenses	6	96,404	65,992
Total expenses		478,498	307,198
Operating profit		36,434	55,409
Finance cost		(1,415)	(1,166)

	<i>Note</i>	2017 HK\$'000	2016 HK\$'000
Profit before tax		35,019	54,243
Income tax expense	7	(7,665)	(15,555)
Profit for the year		27,354	38,688
Other comprehensive income			
<i>Item that may be reclassified to profit or loss</i>			
Currency translation difference		3,858	2,028
Other comprehensive income for the year, net of tax		3,858	2,028
Total comprehensive income for the year		31,212	40,716
Earnings per share for profit attributable to the equity holders of the Company for the year – Basic and diluted (HK cents per share)	9	1.35	1.90

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

		2017	2016
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	<i>10</i>	9,719	10,400
Intangible assets	<i>11</i>	34,496	27,447
Deferred tax assets	<i>17</i>	1,367	1,876
		<u>45,582</u>	<u>39,723</u>
Current assets			
Other receivables, prepayments and deposits	<i>12</i>	11,824	10,875
Tax prepayment		11,211	6,224
Derivative financial instruments	<i>13</i>	139,567	77,377
Balances due from agents	<i>14</i>	88,551	57,556
Cash and bank balances and client trust bank balances	<i>15</i>	1,104,050	890,403
Total current assets		<u>1,355,203</u>	<u>1,042,435</u>
Total assets		<u>1,400,785</u>	<u>1,082,158</u>
EQUITY AND LIABILITIES			
Share capital	<i>21</i>	20,333	20,332
Reserves		365,190	360,282
Retained earnings		161,704	133,903
Total equity		<u>547,227</u>	<u>514,517</u>

	<i>Note</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current liabilities			
Finance lease obligations	<i>16</i>	47	18
Current income tax liabilities		–	2,201
Other payables and accrued liabilities	<i>18</i>	53,272	31,785
Borrowing	<i>19</i>	–	55,835
Derivative financial instruments	<i>13</i>	30,646	3,047
Clients' balances	<i>20</i>	766,182	473,904
		<u>850,147</u>	<u>566,790</u>
Non-current liabilities			
Finance lease obligations	<i>16</i>	205	–
Deferred tax liabilities	<i>17</i>	3,206	851
		<u>3,411</u>	<u>851</u>
Total liabilities		<u>853,558</u>	<u>567,641</u>
Total equity and liabilities		<u>1,400,785</u>	<u>1,082,158</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

1.1 General information

The Company was incorporated in the Cayman Islands on 9 November 2010 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's immediate parent is CITIC Securities Overseas Investment Company Limited (the "CITIC Securities Overseas"), a company incorporated in Hong Kong and its ultimate holding company is CITIC Securities Company Limited (the "CITIC Securities"), a company incorporated in the People's Republic of China. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company is an investment holding company and its subsidiaries are principally engaged in the provision of leveraged foreign exchange and other trading, cash dealing business, and other services.

As at 31 December 2017, 59.03% of the total issued shares of the Company are held by CITIC Securities Overseas, 14.75% of issued shares are held by KVB Kunlun Holdings Limited and the remaining 26.22% of issued shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

On 2 June 2016, Zhuhai Hengqin Kunlun Financial Exchange Limited ("KVB ZHHQ"), a wholly-owned subsidiary of the Company, entered into a membership agreement with Tianjin Precious Metals Exchange Limited ("TPME"), whereby TPME will provide KVB ZHHQ a spot trading and settlement platform for precious metals trading and the relevant consulting, training and management services to KVB ZHHQ. TPME is controlled by CITIC Limited, an entity incorporated in Hong Kong which has significant influence over CITIC Securities Overseas.

The financial statements are presented in Hong Kong dollars ("HK\$"), unless otherwise stated.

1.2 Significant event

On 2 June 2017, the Group received a notice from TPME that it will adjust its precious metals spot trading business with a view to reduce the trading risks, and it will suspend the opening of new trading positions for all spot commodities traded on the exchange with effect from 12 June 2017 (the "Suspension"). The closing of existing trading positions will not be affected.

As a result of the Suspension, other than the closing of existing positions, the Group will no longer be able to generate revenue from the spot trading business in precious metals on the TPME after 12 June 2017. The Group has not been informed when or if the Suspension will be lifted as at the reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company and its subsidiaries (together the “Group”) have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

(a) *New and amended standards adopted by the Group*

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to HKAS 12, and
- Disclosure initiative – amendments to HKAS 7.

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods. The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities, see Note 23.

(b) *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, ‘Financial instruments’ addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39, Financial instruments: Recognition and Measurement. Based on the assessments undertaken to date, the Group does not expect a material change in respect of the impairment loss allowance for the Group's financial assets.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. The group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

HKFRS 15, 'Revenue from contracts with customers', the HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Based on the assessments undertaken to date, the Group does not expect a significant financial impact arising from the change in revenue recognition policy adopted by the Group.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. The Group will apply the standard using the modified retrospective approach and comparatives will not be restated.

HKFRS 16, 'Leases', will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard will affect primarily the accounting for Group's operating leases. At 31 December 2017, the Group had non-cancellable operating lease commitments of HK\$19.2 million.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the executive directors and senior management of the Group. The Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of the other business segments. The Board of Directors considers the business from a geographical and product perspective.

Summary details of the business segments are as follows:

- (a) the margin dealing segments engage in the provision of leveraged foreign exchange, commodity and index trading services in Australia, Hong Kong and New Zealand;
- (b) the unleveraged cash dealing segment engages in the provision of non-leveraged foreign exchange trading services in New Zealand. Unleveraged cash dealing services were provided to corporate clients, in particular, those clients engaged in money changing business for the purpose of hedging their cash positions and meeting settlement obligations. The Group is rewarded by the spread between the price quoted to our clients and the price offered by our market makers; and
- (c) the investment sales segments engage in provision of sales and marketing functions to clients in New Zealand and Australia; and

- (d) the People's Republic of China ("PRC") business segment engages in provision of trading and settlement of precious metals in PRC.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the years ended 31 December 2017 and 2016.

The segment information provided to the management for the reportable segments for the years ended 31 December 2017 and 2016 is as follows:

For the year ended 31 December 2017

	New Zealand Margin dealing HK\$'000	Hong Kong Margin dealing HK\$'000	Australia Margin dealing HK\$'000	New Zealand Cash dealing HK\$'000	New Zealand Investment sales HK\$'000	Australia Investment sales HK\$'000	PRC Business HK\$'000	Unallocated HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue and other income:										
Foreign exchange and other trading income earned from external customers	364,042	142	4,472	1,136	-	-	28,369	-	-	398,161
Inter-segment sales	-	74,673	7,550	-	16,621	2,395	-	-	(101,239)	-
Segment revenue	364,042	74,815	12,022	1,136	16,621	2,395	28,369	-	(101,239)	398,161
Fee and commission income	101,444	-	13	-	-	-	-	7,318	-	108,775
Other income/(losses)	309	-	1	25	-	17	(2,056)	9,700	-	7,996
Total revenue and other income	<u>465,795</u>	<u>74,815</u>	<u>12,036</u>	<u>1,161</u>	<u>16,621</u>	<u>2,412</u>	<u>26,313</u>	<u>17,018</u>	<u>(101,239)</u>	<u>514,932</u>
Segment profit/(loss)	53,110	64,064	11,254	(79)	(2,575)	(1,218)	(26)	17,018		141,548
Other unallocated staff costs										(31,579)
Other unallocated administrative and operating expenses										(74,950)
Profit before tax										35,019
Income tax expense										(7,665)
Profit for the year										<u>27,354</u>
Other segment information:										
Depreciation and amortisation	-	66	25	-	-	1	1,890	10,539		12,521
Lease payments	-	762	-	-	-	-	2,428	10,205		13,395
Finance cost	35	-	-	-	-	-	1,217	163		1,415

For the year ended 31 December 2016

	New Zealand Margin dealing HK\$'000	Hong Kong Margin dealing HK\$'000	New Zealand Cash dealing HK\$'000	New Zealand Investment sales HK\$'000	Australia Investment sales HK\$'000	PRC Business HK\$'000	Unallocated HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue and other income:									
Foreign exchange and other trading income earned from external customers	310,104	(2)	4,251	-	-	(4,066)	-	-	310,287
Inter-segment sales	-	113,659	-	14,489	13,317	-	-	(141,465)	-
Segment revenue	310,104	113,657	4,251	14,489	13,317	(4,066)	-	(141,465)	310,287
Fee and commission income	53,700	-	-	-	-	-	1,656	-	55,356
Other (losses)/income	1,096	-	47	-	81	17	(4,277)	-	(3,036)
Total revenue and other income	<u>364,900</u>	<u>113,657</u>	<u>4,298</u>	<u>14,489</u>	<u>13,398</u>	<u>(4,049)</u>	<u>(2,621)</u>	<u>(141,465)</u>	<u>362,607</u>
Segment profit/(loss)	52,561	104,238	3,228	952	9,367	(17,388)	(2,621)		150,337
Other unallocated staff costs									(35,459)
Other unallocated administrative and operating expenses									(60,635)
Profit before tax									54,243
Income tax expense									(15,555)
Profit for the year									<u>38,688</u>
Other segment information:									
Depreciation and amortisation	-	82	-	-	21	928	7,115		8,146
Lease payments	-	953	-	-	-	2,925	8,670		12,548
Finance cost	35	-	-	-	-	1,126	5		1,166

The Company is domiciled in Hong Kong. The Group's major income from external customers is derived from its operations in New Zealand.

	2017 HK\$'000	2016 HK\$'000
New Zealand	365,178	314,355
Others	<u>32,983</u>	<u>(4,068)</u>
	<u>398,161</u>	<u>310,287</u>

The locations of its non-current assets (excluding deferred tax assets) are as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Hong Kong	13,831	8,943
New Zealand	23,761	18,311
Australia	958	1,395
PRC	5,665	9,198
	<u>44,215</u>	<u>37,847</u>

None of the external customers contributes more than major of the Group's trading income individually in the respective years.

Information on segment assets and liabilities are not disclosed as this information is not presented to the Board of Directors as they do not assess performance of reportable segments using information on assets and liabilities.

4 OTHER INCOME/(LOSSES)

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Interest income	2,661	1,877
Exchange gains/(losses), net	5,384	(5,814)
Handling fee rebate	–	865
(Loss)/gain on disposal of fixed assets	(438)	36
Others	389	–
	<u>7,996</u>	<u>(3,036)</u>

5 STAFF COSTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Staff costs (including directors' remuneration):		
Salaries, bonus and allowances	54,144	50,595
Pension scheme contributions	1,319	1,309
Staff option expenses (<i>Note 24</i>)	1,468	8,201
	<u>56,931</u>	<u>60,105</u>

6 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Management fees paid to the then immediate holding company	664	857
Other office occupation expenses	4,004	2,873
Auditor's remuneration		
– Audit services	2,966	2,833
– Non-audit services	679	611
Information services expenses	6,417	4,018
Professional and consultancy fee	6,798	3,508
Repair and maintenance (including system maintenance)	13,708	9,745
Marketing, advertising and promotion expenses	22,864	16,149
Handling fee expenses	22,126	10,468
Travelling expenses	3,966	4,038
Entertainment expenses	970	1,901
Insurance	845	709
Bank charges	975	1,599
Staff training	388	1,071
Client's debit balances written off	1,091	2,115
Impairment of intangible asset	1,730	–
Others	6,213	3,497
	<u>96,404</u>	<u>65,992</u>

7 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit during the year. Taxation on overseas profits has been calculated on the estimated assessable profit during the year at the rates of taxation prevailing in the countries in which the Group operates. The income tax expenses of the Group are charged at a tax rate of 28% (2016: 28%) in New Zealand, 30% (2016: 30%) in Australia and 25% (2016: 25%) in PRC in accordance with the local tax authorities.

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current tax:		
Charge for the year	4,992	15,416
Over-provision in prior year	(680)	(383)
Others	444	249
Deferred tax:		
Charge for the year (<i>Note 17</i>)	<u>2,909</u>	<u>273</u>
Income tax expense	<u>7,665</u>	<u>15,555</u>

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Profit before income tax	<u>35,019</u>	<u>54,243</u>
Tax at the Hong Kong statutory tax rate	5,778	8,950
Effect of different taxation rates in other countries	1,031	1,430
Income not subject to tax	(1,156)	(673)
Expenses not deductible for tax	1,814	5,343
Temporary differences not recognized	434	318
Over-provision in prior year	(680)	(383)
Others	<u>444</u>	<u>570</u>
Income tax expense	<u><u>7,665</u></u>	<u><u>15,555</u></u>

8 DIVIDENDS

The Board does not declare the payment of any dividend for the year ended 31 December 2017 (2016: Nil).

9 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Profit attributable to equity holders of the Company	<u>27,354</u>	<u>38,688</u>
	No. of shares	No. of shares
Weighted average number of ordinary shares in issue	<u>2,033,241,644</u>	<u>2,033,229,071</u>
Basic earnings per share (HK cents)	<u><u>1.35</u></u>	<u><u>1.90</u></u>

(b) Diluted earnings per share

The diluted earnings per share for the year ended 31 December 2017 and 2016 are the same as basic earnings per share as there are no dilutive ordinary shares.

The effects of the share options granted on 19 August 2015 and 29 December 2016 (Note 24) which are outstanding on 31 December 2017 and 2016 are not included in the computation of diluted earnings per share for the year ended 31 December 2017 and 2016.

10 PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2016					
Cost	8,334	15,104	8,761	2,668	34,867
Accumulated depreciation	<u>(7,013)</u>	<u>(8,605)</u>	<u>(7,821)</u>	<u>(2,031)</u>	<u>(25,470)</u>
Net carrying amount	<u><u>1,321</u></u>	<u><u>6,499</u></u>	<u><u>940</u></u>	<u><u>637</u></u>	<u><u>9,397</u></u>
For the year ended 31 December 2016					
Opening net carrying amount	1,321	6,499	940	637	9,397
Exchange adjustments	9	(31)	21	8	7
Additions	1,006	1,559	2,937	–	5,502
Disposals	–	–	–	(64)	(64)
Depreciation	<u>(654)</u>	<u>(2,047)</u>	<u>(1,413)</u>	<u>(328)</u>	<u>(4,442)</u>
Closing net carrying amount	<u><u>1,682</u></u>	<u><u>5,980</u></u>	<u><u>2,485</u></u>	<u><u>253</u></u>	<u><u>10,400</u></u>
As at 31 December 2016					
Cost	9,368	16,636	11,693	1,927	39,624
Accumulated depreciation	<u>(7,686)</u>	<u>(10,656)</u>	<u>(9,208)</u>	<u>(1,674)</u>	<u>(29,224)</u>
Net carrying amount	<u><u>1,682</u></u>	<u><u>5,980</u></u>	<u><u>2,485</u></u>	<u><u>253</u></u>	<u><u>10,400</u></u>
For the year ended 31 December 2017					
Opening net carrying amount	1,682	5,980	2,485	253	10,400
Exchange adjustments	68	125	102	7	302
Additions	54	1,968	–	2,250	4,272
Disposals	–	(4)	(460)	–	(464)
Depreciation	<u>(605)</u>	<u>(2,395)</u>	<u>(1,339)</u>	<u>(452)</u>	<u>(4,791)</u>
Closing net carrying amount	<u><u>1,199</u></u>	<u><u>5,674</u></u>	<u><u>788</u></u>	<u><u>2,058</u></u>	<u><u>9,719</u></u>
As at 31 December 2017					
Cost	8,602	17,191	11,305	4,067	41,165
Accumulated depreciation	<u>(7,403)</u>	<u>(11,517)</u>	<u>(10,517)</u>	<u>(2,009)</u>	<u>(31,446)</u>
Net carrying amount	<u><u>1,199</u></u>	<u><u>5,674</u></u>	<u><u>788</u></u>	<u><u>2,058</u></u>	<u><u>9,719</u></u>

11 INTANGIBLE ASSETS

	Computer software <i>HK\$'000</i>	Trading right <i>(Note)</i> <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2016			
Cost	15,416	–	15,416
Accumulated amortisation	<u>(7,737)</u>	<u>–</u>	<u>(7,737)</u>
Net carrying amount	<u><u>7,679</u></u>	<u><u>–</u></u>	<u><u>7,679</u></u>
For the year ended 31 December 2016			
Opening net carrying amount	7,679	–	7,679
Exchange adjustments	131	–	131
Additions	21,666	1,675	23,341
Amortisation	<u>(3,704)</u>	<u>–</u>	<u>(3,704)</u>
Closing net carrying amount	<u><u>25,772</u></u>	<u><u>1,675</u></u>	<u><u>27,447</u></u>
As at 31 December 2016			
Cost	37,274	1,675	38,949
Accumulated amortisation	<u>(11,502)</u>	<u>–</u>	<u>(11,502)</u>
Net carrying amount	<u><u>25,772</u></u>	<u><u>1,675</u></u>	<u><u>27,447</u></u>
For the year ended 31 December 2017			
Opening net carrying amount	25,772	1,675	27,447
Exchange adjustments	778	55	833
Additions	15,676	–	15,676
Amortisation	<u>(7,730)</u>	<u>–</u>	<u>(7,730)</u>
Impairment	<u>–</u>	<u>(1,730)</u>	<u>(1,730)</u>
Closing net carrying amount	<u><u>34,496</u></u>	<u><u>–</u></u>	<u><u>34,496</u></u>
As at 31 December 2017			
Cost	52,702	1,802	54,504
Accumulated amortisation and impairment	<u>(18,206)</u>	<u>(1,802)</u>	<u>(20,008)</u>
Net carrying amount	<u><u>34,496</u></u>	<u><u>–</u></u>	<u><u>34,496</u></u>

Note: The balance represents the fee paid pursuant to the membership agreement with TPME, as mentioned in Note 1 to the consolidated financial information, which is not subject to amortization and is assessed for impairment annually. As a result of the Suspension, the balance is fully impaired as at 31 December 2017.

12 OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Rental and utility deposits	3,954	4,525
Prepayments	5,961	3,962
Other receivables	1,909	2,388
Total	<u>11,824</u>	<u>10,875</u>

The carrying amounts of the Group's other receivables and deposits approximate to their fair values.

13 DERIVATIVE FINANCIAL INSTRUMENTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current assets		
Derivative contracts	139,567	77,377
Current liabilities		
Derivative contracts	<u>(30,646)</u>	<u>(3,047)</u>
Total	<u>108,921</u>	<u>74,330</u>

The Group trades in foreign currencies, commodities and other products through its margin trading business. In order to protect against their exposures to fluctuations in foreign exchange rates and commodity prices, the Group has entered into a number of foreign exchange forward transactions and contracts for difference with the Group's bankers in the normal course of business.

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2017 and 2016 are HK\$14,292,459,000 and HK\$3,707,941,000 respectively.

14 BALANCES DUE FROM AGENTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Balances due from:		
– agents	83,969	10,950
– TPME	4,582	46,606
Total	<u>88,551</u>	<u>57,556</u>

The carrying amounts of the Group's balances due from agents approximate to their fair values. The Group is free to withdraw the funds from accounts maintained with these agents at any time.

15 CASH AND BANK BALANCES AND CLIENT TRUST BANK BALANCES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Cash and bank balances	430,198	317,554
Fixed deposits with banks	87,553	160,282
Client trust bank balances	<u>586,299</u>	<u>412,567</u>
	<u>1,104,050</u>	<u>890,403</u>

The Group maintains trust and segregated accounts with authorised financial institutions to hold clients' deposits arising from normal business transactions. The Group is not allowed to use the clients' monies to settle its own obligations in the ordinary course of business, and therefore they are not included as cash and cash equivalents in the statement of cash flows.

As at 31 December 2017 and 2016, fixed deposits of HK\$86,015,000 and HK\$158,920,000 respectively are pledged to banks for banking facilities. No overdraft facility was utilised by the Group as at 31 December 2017 and 2016. None of the bank deposits are placed with market makers as collateral as at 31 December 2017 and 2016.

For the purposes of the consolidated cash flow statements, cash and cash equivalents comprises of the following:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Cash and bank balances	430,198	317,554
Fixed deposits with bank with original maturity within three months	<u>1,538</u>	<u>1,362</u>
	<u>431,736</u>	<u>318,916</u>

16 FINANCE LEASE OBLIGATIONS

Lease liabilities are effectively secured as the rights to the lease asset revert to the lessor in the event of default.

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Gross finance lease liabilities – minimum lease payments		
Not later than 1 year	56	19
Later than 1 year and no later than 5 years	<u>228</u>	<u>–</u>
	284	19
Future finance charges on finance leases	<u>(32)</u>	<u>(1)</u>
Present value of finance lease liabilities	<u><u>252</u></u>	<u><u>18</u></u>

The present value of finance lease liabilities is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Not later than 1 year	47	18
Later than 1 year and no later than five years	<u>205</u>	<u>–</u>
	<u><u>252</u></u>	<u><u>18</u></u>

The Group leases various vehicles under non-cancellable finance lease agreements. The lease terms are 3 to 5 years and ownership of the assets lie within the Group.

17 DEFERRED TAXATION

Deferred tax assets and liabilities are offset on an individual entity basis when there is a legal right to set off current tax assets against current tax liabilities and when the deferred taxation relates to the same authority. The following amounts, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Deferred tax assets to be recovered after more than twelve months	1,367	1,876
Deferred tax liabilities to be settled after more than twelve months	<u>(3,206)</u>	<u>(851)</u>
	<u><u>(1,839)</u></u>	<u><u>1,025</u></u>

The major components of deferred tax assets/(liabilities) recorded in the consolidated balance sheet and the movements during the year are as follows:

	Employee benefits	Depreciation	Other temporary differences	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2016	1,194	(620)	699	1,273
Exchange adjustments	20	(1)	6	25
(Charge)/credit for the year	<u>(63)</u>	<u>(214)</u>	<u>4</u>	<u>(273)</u>
At 31 December 2016	<u><u>1,151</u></u>	<u><u>(835)</u></u>	<u><u>709</u></u>	<u><u>1,025</u></u>
At 1 January 2017	1,151	(835)	709	1,025
Exchange adjustments	37	(3)	11	45
Charge for the year	<u>(45)</u>	<u>(1,612)</u>	<u>(1,252)</u>	<u>(2,909)</u>
At 31 December 2017	<u><u>1,143</u></u>	<u><u>(2,450)</u></u>	<u><u>(532)</u></u>	<u><u>(1,839)</u></u>

18 OTHER PAYABLES AND ACCRUED LIABILITIES

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accrued rental benefit	231	456
Accrued audit fees	2,781	2,210
Other accruals	5,257	4,279
Commission payable	27,825	11,873
Employee entitlements	11,820	9,638
Deferred revenue	–	193
Other payables	<u>5,358</u>	<u>3,136</u>
	<u><u>53,272</u></u>	<u><u>31,785</u></u>

The carrying amounts of the Group's other payables and accrued liabilities approximate to their fair values.

19 BORROWING

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current		
Bank borrowing	—	55,835
	<u>—</u>	<u>55,835</u>
	<u>—</u>	<u>55,835</u>

As at 31 December 2016, the bank borrowing bears an interest rate at 4.35% per annum, was secured by bank deposits of HK\$68,860,848 and was repayable within 1 year.

The carrying amounts of the Group's borrowing approximate to their fair values.

20 CLIENTS' BALANCES

The balances represent margin deposits received from clients and the realised profit or loss from their trading activities under normal course of business. The carrying amounts approximate to their fair values.

21 SHARE CAPITAL

	Number of shares in issue	Issued share capital <i>HK\$'000</i>
As at 1 January 2016	2,033,040,000	20,330
Issuance of new ordinary shares upon exercise of share options (<i>Note 24</i>)	<u>200,000</u>	<u>2</u>
As at 31 December 2016	<u>2,033,240,000</u>	<u>20,332</u>
As at 1 January 2017	2,033,240,000	20,332
Issuance of new ordinary shares upon exercise of share options (<i>Note 24</i>)	<u>50,000</u>	<u>1</u>
As at 31 December 2017	<u>2,033,290,000</u>	<u>20,333</u>

22 CAPITAL RESERVE

The balance represents the difference between the book value of the net assets of KVB Kunlun New Zealand Limited, KVB Kunlun Pty Limited and KVB Kunlun International (HK) Limited over the par value of the shares issued by LXL Capital II Limited, LXL Capital III Limited and LXL Capital IV Limited in exchange for these subsidiaries as part of the reorganisation completed in 2012.

23 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Finance leases due within 1 year HK\$'000	Finance leases due after 1 year HK\$'000	Borrowing due within 1 year HK\$'000	Borrowing due after 1 year HK\$'000	Total HK\$'000
At 1 January 2017	18	–	55,835	–	55,853
Changes from financing cash flows:					
Repayment of finance lease obligations	(41)	–	–	–	(41)
Repayment of borrowing	–	–	(55,835)	–	(55,835)
Exchange adjustments	1	4	–	–	5
Other charges:					
New Finance lease	63	201	–	–	264
Interest on finance lease	6	–	–	–	6
	<u>47</u>	<u>205</u>	<u>–</u>	<u>–</u>	<u>252</u>
At 31 December 2017	<u>47</u>	<u>205</u>	<u>–</u>	<u>–</u>	<u>252</u>

24 SHARE OPTION SCHEME

On 19 August 2015, the Board of Directors of the Company granted 40,000,000 share options to 95 individuals (“Grantees”) for their subscription of new ordinary shares of HK\$0.01 each in the share capital of the Company.

These share options are exercisable at HK\$0.95 per share, with varying vesting period and validity from the date of grant. 35 out of 95 of the Grantees were granted share options which are exercisable for a period of three years commencing on the date of grant to 18 August 2018. 12 out of 95 of the Grantees were granted share options which are exercisable for a period of three years commencing on the date falling on the first anniversary of the date of grant to 18 August 2019, with a vesting period of one year from the date of grant. The remaining 48 Grantees were granted options which are exercisable for a period of two years commencing on the date falling on the second anniversary of the date of grant to 18 August 2019, with a vesting period of two years from the date of grant. Among the 40,000,000 share options granted, 12,200,000 share options were granted to the directors and chief executives of the Company.

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding are as follows:

Grantee	Date of grant	Outstanding as at 31 December 2016	Granted during the period	Forfeited during the period	Exercised during the period	Outstanding as at 31 December 2017	Exercise price HK\$	Exercise period
Liu Stefan	19 August 2015	8,300,000	-	-	-	8,300,000	0.95	19 August 2015 to 18 August 2018
Ng Chee Hung Frederick	19 August 2015	2,000,000	-	-	-	2,000,000	0.95	19 August 2015 to 18 August 2018
Stephen Gregory McCoy	19 August 2015	1,000,000	-	-	-	1,000,000	0.95	19 August 2015 to 18 August 2018
Zhao Guixin	19 August 2015	300,000	-	-	-	300,000	0.95	19 August 2015 to 18 August 2018
Corenlis Jacobus Keyser	19 August 2015	300,000	-	-	-	300,000	0.95	19 August 2015 to 18 August 2018
Lin Wenhui	19 August 2015	300,000	-	-	-	300,000	0.95	19 August 2015 to 18 August 2018
Employees of group companies	19 August 2015	16,500,000	-	(950,000)	-	15,550,000	0.95	19 August 2015 to 18 August 2018
Employees of group companies	19 August 2015	1,250,000	-	(250,000)	-	1,000,000	0.95	19 August 2016 to 18 August 2019
Employees of group companies	19 August 2015	4,300,000	-	(300,000)	-	4,000,000	0.95	19 August 2017 to 18 August 2019
Consultants	19 August 2015	400,000	-	-	-	400,000	0.95	19 August 2016 to 18 August 2019
Consultants	19 August 2015	550,000	-	(50,000)	-	500,000	0.95	19 August 2017 to 18 August 2019
		<u>35,200,000</u>	<u>-</u>	<u>(1,550,000)</u>	<u>-</u>	<u>33,650,000</u>		

The Binomial Option Pricing Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. Details of the share options granted on 19 August 2015 was as follows:

Weighted average share option price at the grant date:	HK\$0.3133
Risk free interest rate:	0.821%
Expected volatility:	59.08%
Expected dividend yield:	1.63%
Expected exercise multiple:	Directors: 2.8x exercise price Others: 2.2x exercise price

The measurement date of the share options was 19 August 2015, being the date of grant of the share options. The expected dividend yield is determined with reference to historical dividend payment history of comparable listed companies up to the measurement date. The expected volatility of share price is determined with reference to annualised historical weekly volatility of comparable listed companies' share prices as of the valuation date, as extracted from Bloomberg.

A total of HK\$381,000 share option expenses were recognised in the consolidated statement of comprehensive income during the current year.

On 29 December 2016, the Board of Directors of the Company granted 40,000,000 share options to 95 individuals ("Grantees") for their subscription of new ordinary shares of HK\$0.01 each in the share capital of the Company.

These share options are exercisable at HK\$0.592 per share, with varying vesting period and validity from the date of grant. 37 out of 95 of the Grantees were granted share options which are exercisable for a period of three years commencing on the date of grant to 28 December 2019. 9 out of 95 of the Grantees were granted share options which are exercisable for a period of three years commencing on the date falling on the first anniversary of the date of grant to 28 December 2020, with a vesting period of one year from the date of grant. The remaining 49 Grantees were granted options which are exercisable for a period of two years commencing on the date falling on the second anniversary of the date of grant to 28 December 2020, with a vesting period of two years from the date of grant. Among the 40,000,000 share options granted, 11,750,000 share options were granted to the directors and chief executives of the Company.

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding are as follows:

Grantee	Date of grant	Outstanding	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding	Exercise price HK\$	Exercise period
		as at 31 December 2016				as at 31 December 2017		
Liu Stefan	29 December 2016	8,000,000	-	-	-	8,000,000	0.592	29 December 2016 to 28 December 2019
Ng Chee Hung Frederick	29 December 2016	1,850,000	-	-	-	1,850,000	0.592	29 December 2016 to 28 December 2019
Stephen Gregory McCoy	29 December 2016	1,000,000	-	-	-	1,000,000	0.592	29 December 2016 to 28 December 2019
Zhao Guixin	29 December 2016	300,000	-	-	-	300,000	0.592	29 December 2016 to 28 December 2019
Corenlis Jacobus Keyser	29 December 2016	300,000	-	-	-	300,000	0.592	29 December 2016 to 28 December 2019

Grantee	Date of grant	Outstanding as at 31 December 2016	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding as at 31 December 2017	Exercise price HK\$	Exercise period
Lin Wenhui	29 December 2016	300,000	-	-	-	300,000	0.592	29 December 2016 to 28 December 2019
Employees of group companies	29 December 2016	17,900,000	-	(200,000)	(50,000)	17,650,000	0.592	29 December 2016 to 28 December 2019
Employees of group companies	29 December 2016	1,150,000	-	(250,000)	-	900,000	0.592	29 December 2017 to 28 December 2020
Employees of group companies	29 December 2016	8,500,000	-	(1,550,000)	-	6,950,000	0.592	29 December 2018 to 28 December 2020
Consultants	29 December 2016	500,000	-	(50,000)	-	450,000	0.592	29 December 2017 to 28 December 2020
Consultants	29 December 2016	200,000	-	-	-	200,000	0.592	29 December 2018 to 28 December 2020
		<u>40,000,000</u>	<u>-</u>	<u>(2,050,000)</u>	<u>(50,000)</u>	<u>37,900,000</u>		

The Binomial Option Pricing Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. Details of the share options granted on 29 December 2016 was as follows:

Weighted average share option price at the grant date:	HK\$0.2385
Risk free interest rate:	1.443%
Expected volatility:	70.97%
Expected dividend yield:	0%
Expected exercise multiple:	Directors: 2.8x exercise price Others: 2.2x exercise price

The measurement date of the share options was 29 December 2016, being the date of grant of the share options. The expected dividend yield is determined with reference to historical dividend payment history of comparable listed companies up to the measurement date. The expected volatility of share price is determined with reference to annualised historical weekly volatility of comparable listed companies' share prices as of the valuation date, as extracted from Bloomberg.

A total of HK\$1,087,000 share option expenses were recognised in the consolidated statement of comprehensive income during the current year.

25 SUBSEQUENT EVENT

On 25 January 2018, the Company entered into subscription agreements with BC Global Fund SPC – BC Fintech Fund (the “Subscriber I”) and PA Investment Funds SPC for the account of PA High Technology Fund SP (the “Subscriber II”), to issue 7.5% convertible bonds in an aggregate principal amount of HK\$200 million (the “Bonds”). The Bonds are convertible up to 326,264,273 conversion shares (which are fully-paid ordinary shares upon issue) which will be issuable by the Company upon the exercise of the conversion rights attached to the Bonds in full at the conversion price of HK\$0.613 per conversion share, subject to adjustment.

The issue of the Bonds and the right of conversion into shares of the Company attached to the Bonds were approved and authorised by the shareholders under general mandate at the annual general meeting of the Company held on 10 May 2017.

The estimate net proceeds from the issue of the Bonds will be HK\$199.28 million. The Company currently intends to use the estimated net proceeds for investment in financial assets and working capital purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

Business review

The Board is pleased to present the audited consolidated annual results of the Group for the year ended 31 December 2017, together with the audited comparative figures for the corresponding year in 2016.

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

Business review

During the year under review, we experienced a period of unfavorable trading conditions due to the low market volatility throughout the year. The total revenue increased with an increase in the clients' trading volume during the year under review, by comparing to the figures of the year of 2016.

The year started off with the 'Trump trade', with the expectation of strong performance of USD and equity market, since the US economic data had reasonable positive feedbacks along with Federal Open Market Committee interest rate hike several times. The market also experienced unexpected swings due to geopolitics events, such as Brexit negotiation, North Korea crisis, and 'Trump-Russia Ties'. In general, in periods of elevated volatility, customer trading volumes tend to increase. However, significant swings in market volatility can also result in increased customer trading losses and higher turnover. It is difficult to predict volatility and its effects on the FX market.

Gold was the most popular traded product by our customers. In FX products, EUR/USD was the most traded pair, followed by USD/JPY and GBP/USD.

Gold mainly traded within a price range of \$211.40 USD/ounce. The highest price of gold was traded at \$1,357.60 USD/ounce and the lowest at \$1,146.20 USD/ounce in the year under review. The price range of gold is narrower when compared with that in 2016. The price range of gold was \$313.40 USD/ounce, the highest at \$1,375.30 USD/ounce, and the lowest at \$1,061.90 USD/ounce during 2016.

In the currency market, the price of the EUR/USD was traded in a wider price range in 2017, compared with the price movement in 2016. The highest and the lowest level of the EUR/USD were seen to be 1.2092 and 1.0341 respectively, a nearly 1,751-pips trading range during 2017, compared to a nearly 1,264-pips trading range during 2016, the highest was 1.1616 and the lowest was 1.0352.

The retail margin FX trading market is highly competitive. The competitors include international multi-product trading firms, other online trading firms, and financial institutions. We expect the market to remain very competitive in the foreseeable future. We are constantly looking for ways to improve our customer service level and meet the needs of our clients, by providing more trading opportunities in the global financial markets.

Total income

The total income of the Group increased by approximately 42.0% to approximately HK\$514.9 million for the year ended 31 December 2017 from approximately HK\$362.6 million for the year ended 31 December 2016.

A. *Leveraged foreign exchange and other trading income*

The leveraged foreign exchange and other trading income of the Group increased by approximately 29.7% to approximately HK\$397.0 million for the year ended 31 December 2017 from approximately HK\$306.0 million for the year ended 31 December 2016. This was mainly due to the increased trading volume during the year ended 31 December 2017 as compared to the year ended 31 December 2016.

B. *Cash dealing income*

The cash dealing income of the Group decreased by approximately 73.3% from approximately HK\$4.3 million for the year ended 31 December 2016 to approximately HK\$1.1 million for the year ended 31 December 2017. The decrease was mainly attributable to lower trading volume.

C. *Fee and commission income*

The fees and commission income of the Group increased from approximately HK\$55.4 million for the year ended 31 December 2016 to approximately HK\$108.8 million for the year ended 31 December 2017. The increase was mainly due to the increase in commission earning benefited from the increase in trading volume.

D. *Other income*

During the year ended 31 December 2017, the Group recorded an exchange gain of approximately HK\$5.4 million, the recorded exchange loss for year ended 31 December 2016 was approximately HK\$5.8 million. This was mainly due to the year-end translation of monetary assets denominated in foreign currency into local reporting currency by KVB Kunlun New Zealand Limited, a wholly-owned subsidiary of the Company.

Referral expenses and other charges

The referral expenses and other charges of the Group increased by approximately 86.6% to approximately HK\$299.2 million for the year ended 31 December 2017 from approximately HK\$160.4 million for the year ended 31 December 2016. The increase was mainly due to increase in the trading volume of the clients referred by services providers.

Staff costs

The staff costs of the Group decreased by approximately 5.3% to approximately HK\$56.9 million for the year ended 31 December 2017 from approximately HK\$60.1 million for the year ended 31 December 2016. The decrease was mainly due to decrease in staff entitlements and expenses recognized in respect of staff share option.

Depreciation and amortization

Depreciation and amortization increased by approximately 53.7% to approximately HK\$12.5 million for the year ended 31 December 2017 from approximately HK\$8.1 million for the year ended 31 December 2016. The increase was mainly due to the upgrade of computer software, hardware and the newly capitalized office equipment for the year under review.

Lease payments under land and buildings

Lease payments under land and buildings increased by approximately 6.8% to approximately HK\$13.4 million for the year ended 31 December 2017 from approximately HK\$12.5 million for the year ended 31 December 2016. The increase was mainly due to the increased rental expenses at the Beijing office and increased rental at other offices from lease renewal.

Administrative and other operating expenses

The administrative and other operating expenses of the Group increased to approximately HK\$96.4 million for the year ended 31 December 2017 from approximately HK\$66.0 million for the year ended 31 December 2016. This increase was primarily due to the increase in customer promotion expenses by approximately HK\$11.7 million during the year ended 31 December 2017 as compared with the year ended 31 December 2016 as the result of active reimburse client transaction fee occurred in 2017. Advertising and marketing expenses also increased by approximately HK\$6.7 million during the year ended 31 December 2017 as compared with the year ended 31 December 2016.

Net profit and net profit margin

For the reasons set forth above, the Group achieved a net profit of approximately HK\$27.4 million for the year ended 31 December 2017 compared with the net profit of approximately HK\$38.7 million for the year ended 31 December 2016. The net profit margin for the year ended 31 December 2017 was approximately 5.3%.

In summary, the decrease in profitability of the Group was primarily contributed by:

- higher referral expenses and other charges due to an increase in trading volumes which rebate is required to be paid to the service providers.
- increased expenses in certain main items as described above due to business expansion.

LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, the operations of the Group have been financed principally by equity capital, cash generated by the Group's business operations and the cash and bank deposits.

As at 31 December 2017, cash and bank balances held by the Group amounted to approximately HK\$517.8 million (2016: approximately HK\$477.8 million). There was nil bank borrowings of the Group as at 31 December 2017 (2016: approximately HK\$55.8 million).

GEARING RATIO

The gearing ratio calculated on the basis of net debts (financial lease obligation and bank borrowings) over the total shareholders' equity as at 31 December 2017 was approximately 0.05% (2016: 10.86%).

FOREIGN CURRENCY EXPOSURE

During the year under review, the Group recorded an exchange gain of approximately HK\$5.4 million (2016: approximately loss of HK\$5.8 million). This was mainly due to the year-end translation of monetary assets denominated in foreign currency into local reporting currency by a subsidiary of the Group in New Zealand. The foreign currency risk is managed proactively by regular review of the currency positions in the basket of currency mix. In order to minimize the exposure of the Group to risk, the Group has hedge strategy based on prevailing market conditions and working capital requirements of subsidiaries.

CAPITAL STRUCTURE

During the year under review, the capital structure of the Group consisted of equity attributable to owners of the Company, comprising issued share capital and reserves.

NEW PRODUCTS AND SERVICES

The Group launched new commodities contracts for difference (CFD), including AL5000KG, CU5000KG, NI1000KG, XAG15KG, CPD1KG and XPT1KG during the year ended 31 December 2017.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES DURING THE PERIOD UNDER REVIEW

During the year ended 31 December 2017, the Group did not have any material acquisitions and disposals.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group engaged a total of 76 employees (2016: a total of 86). Total staff costs including Directors' remuneration for the period under review amounted to approximately HK\$56.9 million (2016: HK\$60.1 million). The Group's remuneration policies are in line with the prevailing market practices and are determined on the basis of performance and experience of individual employees. The Group provides retirement benefits in accordance with the relevant laws and regulations in the place where the staff is employed. The Company has adopted a share option scheme pursuant to which the Directors and employees of the Group are entitled to participate.

CHARGES ON THE GROUP'S ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2017, certain bank balances of the Group amounting to approximately HK\$86.0 million (2016: HK\$158.9 million) were used to secure the banking facilities and the offices lease bonds. As at 31 December 2017, the Group did not have any material contingent liabilities.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

We plan to:

1. expand operations in the worldwide overseas Chinese communities;
2. increase the range of our financial services and products;
3. further upgrade our online trading platform; and
4. develop the high net worth and sophisticated institutional clients segment.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S COMPETING INTERESTS

As at 31 December 2017, none of the Directors, the controlling Shareholders and their respective close associates (as defined under the Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") had any business or interest in a business which competes or may compete with the business of the Group.

REVIEW OF FINANCIAL STATEMENTS

The Company established an audit committee (the "Audit Committee") on 18 December 2012 with written terms of reference in compliance with the requirements as set out in Listing Rules. The Audit Committee comprises three independent non-executive Directors, namely, Mr. Lin Wenhui, Ms. Zhao Guixin and Mr. Cornelis Jacobus Keyser. Mr. Lin Wenhui is the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and risk management and internal control systems of the Company, nominate and monitor external auditors and provide advice and comments to the Directors.

The Audit Committee has met the external auditors of the Group to review the accounting principles and practices adopted by the Group and discussed auditing, risk management and internal control systems and financial reporting matters including the review of this announcement and financial statements of the Group for the year ended 31 December 2017.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2017 (2016: Nil).

EVENTS AFTER THE REPORTING PERIOD

On 25 January 2018, the Company entered into subscription agreements with BC Global Fund SPC – BC Fintech Fund and PA Investment Funds SPC for the account of PA High Technology Fund SP, to issue 7.5% convertible bonds in an aggregate principal amount of HK\$200 million (the "Bonds"). The Bonds are convertible up to 326,264,273 conversion shares (which are fully-paid ordinary shares upon issue) which will be issuable by the Company upon the exercise of the conversion rights attached to the Bonds in full at the conversion price of HK\$0.613 per conversion share, subject to adjustment.

The issue of the Bonds and the right of conversion into shares of the Company attached to the Bonds were approved and authorised by the shareholders of the Company under general mandate at the annual general meeting of the Company held on 10 May 2017.

The net proceeds from the issue of the Bonds is approximately HK\$199.28 million. The Company currently intends to use the net proceeds for investment in financial assets and working capital purposes.

Details of the subscription of the Bonds were set out in the announcements of the Company dated 25 January 2018 and dated 12 February 2018 respectively.

Save as disclose above, there were no major subsequent events since the end of the reporting year and up to the date of this announcement.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 16 May 2018 to Monday, 21 May 2018, both days inclusive, during the period no transfers of shares of the Company will be registered. In order to qualify for attending and voting at the 2018 Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration by no later than 4:00 p.m. (Hong Kong time) on Tuesday, 15 May 2018.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the period from 1 January 2017 to 14 December 2017 and during the period from 15 December 2017 to 31 December 2017, the Company has complied with all code provisions as set out in the Corporate Governance Code contained in Appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of Stock Exchange and the Corporate Governance Code contained in Appendix 14 to the Listing Rules respectively (collectively called the "CG Code"), except for the following deviations:

Pursuant to code provision A.2.7 of the CG Code, the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. The Chairman did not hold any meeting with non-executive Directors (including independent non-executive Directors) without the executive Directors present in 2017 due to the tight schedule of the Chairman. In the absence of the Chairman, the Chief Executive Officer is in the position to facilitate the effective contribution of non-executive Directors (including independent non-executive Directors), and ensure their views are communicated and heard by the Board.

Pursuant to code provision A.6.7 of the CG Code, the independent non-executive directors and the non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. At the annual general meeting of the Company held on 10 May 2017, Ms. Zhao Guixin, an independent non-executive Director, was unable to attend that meeting due to health reason.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the “Standard of Dealing”) during the period from 1 January 2017 to 14 December 2017 and the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) during the period from 15 December 2017 to 31 December 2017 as the code of conduct regarding securities transactions in securities of the Company by the Directors.

Having made specific enquiry with the Directors, all the Directors confirmed that they had complied with the Standard of Dealings and the Model Code during the year ended 31 December 2017.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

For the year ended 31 December 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

By order of the Board
KVB Kunlun Financial Group Limited
Liu Stefan
Executive Director

Hong Kong, 16 March 2018

As at the date of this announcement, the directors of the Company are as follows:

Executive Director

Mr. Liu Stefan

Non-executive Directors

Mr. Li Zhi Da

Mr. Stephen Gregory McCoy

Independent Non-executive Directors

Ms. Zhao Guixin

Mr. Cornelis Jacobus Keyser

Mr. Lin Wenhui